STATE BOARD OF EQUALIZATION
STAFF LEGISLATIVE ENROLLED BILL ANALYSIS

Date Amended:	**Chapter 162**	Bill No:	**AB 1766**
Tax:	**Bradley-Burns Tax**	Author:	**Assembly Budget Committee**
Board Position:		Related Bills:	**AB 7x (Oropeza)**

BILL SUMMARY

This bill would, among other things, do the following: (1) reduce the amount of property tax revenue allocated to a county's Educational Revenue Augmentation Fund by an amount attributable to the 0.50 percent reduction in the local sales and use tax rate, and instead, require this amount to be deposited into the Sales and Use Tax Compensation Fund that will be established by this bill in each county; (2) require the county auditor to allocate moneys from the Sales and Use Tax Compensation Fund to cities and counties to reimburse them for local sales and use tax revenue losses attributable to the 0.50 percent reduction in the local sales and use tax rate; and (3) require the Board, on or before August 15th of each fiscal year, to report to the Director of Finance the taxable sales in a county for the prior fiscal year.

Background

Under current law, the statewide sales and use tax rate is 7.25 percent. Of the 7.25 percent base rate, 6 percent is the state sales and use tax portion and 1.25 percent is the local sales and use tax portion. The components of the state sales and use tax rate of 6 percent are as follows:

- 5 percent state tax allocated to the state's General Fund (Section 6051, 6051.3, 6201 and 6201.3).
- 1/2 percent state tax allocated to the Local Revenue Fund which is dedicated to local governments for program realignment (Section 6051.2 and 6201.2).
- 1/2 percent state tax allocated to the Local Public Safety Fund which is dedicated to local governments to fund public safety services (Section 35 of Article XIII of the California Constitution).

Under the Bradley-Burns Uniform Local Sales and Use Tax Law (commencing with Section 7200 of the Revenue and Taxation Code), counties and cities are authorized to impose a local sales and use tax at a fixed rate of 1.25 percent. Counties are authorized to impose a local sales and use tax rate of up to 1.25 percent. Cities are authorized to impose a local sales and use tax rate of up to 1 percent that is credited against the county rate so that the combined local sales and use tax rate does not exceed 1.25 percent. Of the 1.25 percent, cities and counties use the 1 percent to support general operations. The remaining 0.25 percent is designated by statute for county transportation purposes and may be used only for road maintenance or the operation of transit systems.

COMMENTS

1. **This bill is intended to further implement the provisions of AB 7x,** which would enact the California Fiscal Recovery Financing Act to: (1) increase the state portion of the sales and use tax rate by 0.5 percent, from 6 percent to 6.5 percent; (2) decrease the local sales and use tax rate imposed by a city from 1 percent to 0.5 percent; and (3) decrease the local sales and use tax rate imposed by a county from 1.25 percent to 0.75 percent. The revenues would be dedicated to the repayment of the deficit funding bond. The provisions of AB 7x become operative on July 1, 2004.

2. **The Board is required to report to the Director of Finance on August 15th of each fiscal year the prior fiscal year taxable sales of a county.** This bill reduces the amount of property tax revenues allocated to a county's Educational Revenue Augmentation Fund by the "countywide adjustment amount." The "countywide adjustment amount" is defined as the combined total revenue loss, as a result of the 0.5 percent reduction in the local sales and use tax rate, of the county and each city in the county that is annually estimated by the Director of Finance. The amount estimated by the Director of Finance would be based on the taxable sales in a county in the prior fiscal year as determined by the Board. The Board is required to provide this information to the Director of Finance on or before August 15th of each fiscal year.

   This bill also provides that the Director of Finance, on or before September 1st of each fiscal year, will provide each county auditor with the portion of the "countywide adjustment amount" that is attributable to the county and to each city within the county. This bill also contains a clean-up provision that allows the Director of Finance, after the end of each fiscal year, to adjust the countywide adjustment amount (which is based on estimated figures) for the prior fiscal year, once the actual taxable sales figure is known.

   Notwithstanding the clean-up provision, the requirement for the Board to provide county taxable sales data for the prior fiscal year by August 15th is a problem. The problem is that the Board does not have county taxable sales data for the prior fiscal year by August 15th. The Board does have a part of the prior fiscal year data and has an entire fiscal year data for the fiscal year that precedes the prior fiscal year (e.g., by August 15, 2004, the Board has data for the fiscal year 2002-03).

   Therefore, Board staff is currently working with the Department of Finance to amend the statute so that it reflects exactly what information the Board can provide by August 15th. Department of Finance anticipates amending the statute either this year or no later than February 2004.

   It should be noted that the estimates made by the Department of Finance and the clean-up provisions in this bill are based on taxable sales, while the total local sales and use tax revenue of the cities and counties is based on all transactions subject to Bradley-Burns local sales and use tax. These transactions are compiled from information reported on taxpayers' sales and use tax returns, in addition to information compiled from audits, claims for refund, reallocation adjustments, late payments, and adjustments made by the Board's Local Revenue and Allocation

Section. Therefore, in order to ensure that the cities and counties are properly reimbursed for the local sales and use tax revenue losses attributable to the 0.50 percent local sales and use tax rate reduction, all of the local tax revenues need to be accounted for, not just taxable sales. Board staff is working with the Department of Finance to amend the statutes to reflect exactly the information that needs to be provided to the county auditors.

3. **Switching to payments in January and May of each fiscal year instead of the current monthly payments could cause cash flow problems for cities and counties.** This bill requires the county auditor to allocate property tax revenues from the Sales and Use Tax Compensation Fund (SUTCF) to cities and counties in two equal payments in January and May of each fiscal year. The Board currently transmits local sales and use tax revenues to cities and counties on a monthly basis. Therefore, the local sales and use tax revenues that cities and counties had received on a monthly basis, will now be transmitted twice a year in the months of January and May. This could result in a cash flow problem for cities and counties.

COST ESTIMATE

Absorbable. Board staff is currently working with the Department of Finance to provide them with data that the Board already prepares.

REVENUE ESTIMATE

A companion bill to this bill, AB 7x (Chapter 13 of the First Extraordinary Session), increases the state sales and use tax rate by 0.50 percent and decreases the Bradley-Burns local sales and use tax rate by 0.50 percent. This bill reduces the amount of property tax revenue allocated to a county's Educational Revenue Augmentation Fund by an amount attributable to the 0.50 percent reduction in the local sales and use tax rate, and instead requires this amount to be deposited into the SUTCF that is established by this bill. This bill requires the county auditor to allocate moneys from the SUTCF to cities and counties to reimburse them for local sales and use tax revenue losses attributable to the 0.50 percent reduction in the local sales and use tax rate.

A 0.50 percent reduction in the local sales and use tax rate would reduce local sales and use tax revenues by $2.4 billion. Cities and counties would be reimbursed for this $2.4 billion local revenue loss through property tax revenues from the SUTCF.

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